



Via Portal Submission

April 24, 2020  
MGEX Submission No. 20-16

Mr. Christopher J. Kirkpatrick  
Secretary of the Commission  
Commodity Futures Trading Commission  
Three Lafayette Centre  
1155 21<sup>st</sup> Street NW  
Washington, DC 20581

**RE: Rule Certification Submission Pursuant to CFTC Regulation 40.6(a); Update to MGEX Rules**

Dear Mr. Kirkpatrick:

Pursuant to Section 5c(c) of the Commodity Exchange Act (“CEAct”) and Commodity Futures Trading Commission (“CFTC”) Regulation 40.6(a), the Minneapolis Grain Exchange, Inc. (“MGEX”) hereby certifies that the addition of MGEX Rules 3.1.12., 3.3.1., 3.3.2., 3.3.3., 3.3.4., 3.3.5., 3.3.6., 3.3.7., and 3.3.8. as set forth in the attached Exhibit A, comply with the CEAct and the CFTC Regulations promulgated thereunder (the “Proposed Additions”). MGEX further certifies that the submission has been posted on the MGEX website at the following link: <http://www.mgex.com/regulation.html>.

**I. ADDITIONS TO MGEX RULES**

MGEX developed the Proposed Additions pursuant to discussions with the CFTC’s Division of Market Oversight and such additions address specific recommendations from the CFTC’s Final Rule Enforcement Review Report dated October 30, 2019.

First, MGEX proposes to add Rule 3.1.12. to codify existing authority for potential imposition of an Exchange messaging policy. If the Exchange determines it is necessary for the market, it may utilize a messaging policy to discourage irresponsible, excessive, or unreasonable messaging practices by Market Participants. However, MGEX has determined that utilizing a messaging policy is not appropriate at this time.

MGEX proposes to add Rules 3.3.1., 3.3.2., 3.3.3., 3.3.4., 3.3.5., 3.3.6., 3.3.7., and 3.3.8. to codify the Exchange’s error trade policy. The proposed additions codify a protocol for the Exchange to review and adjust or cancel certain trades submitted in error pursuant to the terms of the error trade policy. The Rules also codify the grant of ultimate authority to the Exchange to adjust prices or cancel trades where, in its absolute and sole discretion, action is necessary to mitigate market-disrupting events caused by improper or erroneous use of the Electronic Trading System or by system defects.

## II. COMPLIANCE WITH CORE PRINCIPLES

MGEX has reviewed the Core Principles for designated contract markets (“DCM Core Principles”) and identified that the Proposed Additions may impact the following DCM Core Principles:

- *DCM Core Principle 2, Compliance with Rules:* The Proposed Additions will provide MGEX Rules with provide greater clarity, align better with industry practices, and appropriately identify certain concepts within the MGEX Rules.
- *DCM Core Principle 7, Availability of General Information:* The Proposed Additions have been disseminated on the MGEX website. The Proposed Additions will be available in the MGEX Rulebook, which is accessible online.
- *DCM Core Principle 12, Protection of Markets and Market Participants:* The Proposed Additions will provide greater clarity, align better with industry practices, and appropriately identify certain concepts within the MGEX Rules. As a result, the Proposed Additions should help ensure protection of the market and market participants.
- *DCM Core Principle 13, Disciplinary Procedures:* The Proposed Additions will enhance the ability of MGEX to enforce its Rules through greater clarity, better alignment with industry practices, and appropriate identification of certain concepts within the MGEX Rules.

Pursuant to the authority set forth in MGEX Bylaw 210.01., the MGEX Board of Directors unanimously approved the Proposed Additions at its meeting held on April 21, 2020. There were no substantive opposing views expressed by the Board of Directors, nor is MGEX aware of any substantive opposing views with respect to this filing.

The Proposed Additions are intended to become effective ten (10) business days from the date of this submission. If there are any questions regarding this submission, please contact me at (612) 321-7128. Thank you for your attention to this matter.

Sincerely,



Peter D. Sparby  
Associate Corporate Counsel

Enclosure

## Exhibit A

The following MGEX Rules are to be added. Additions are underlined while deletions are ~~marked through~~.

### 3.1.12. MESSAGING POLICY

The Exchange or its designee has the authority to impose a messaging policy for the purpose of discouraging irresponsible, excessive, or unreasonable messaging practices by Market Participants. Any messaging policy developed and put into effect by the Exchange or its designee shall be posted on the Bulletin Board. If a Market Participant fails to comply with the requirements of any messaging policy in effect, the Exchange and/or its designee may collect administrative fees from any Market Participant or Clearing Member found to have exceeded any policy. Further, in emergency situations, the Exchange or its designee may cancel a Market Participant's and/or a Clearing Member's access to the Electronic Trading System to protect the integrity of the market and Electronic Trading System.

### 3.3.1. AUTHORITY REGARDING TRADE CANCELLATIONS AND PRICE ADJUSTMENTS

MGEX Rules 3.3.1. through 3.3.8. collectively form MGEX's Error Trade Policy ("Error Trade Policy") and shall be applied to balance the adverse effects on market integrity of executing trades and publishing trade information inconsistent with prevailing market conditions while preserving legitimate expectations of trade certainty by market participants. Administration and enforcement of the Error Trade Policy shall be facilitated by the Exchange, or by a designee selected by the Exchange, for MGEX products that are traded on the Electronic Trading System.

The Error Trade Policy grants ultimate authority to the Exchange to adjust trade prices or cancel trades where, in its absolute and sole discretion, the Exchange believes such action is necessary to mitigate market-disrupting events caused by the improper or erroneous use of the Electronic Trading System or by system defects. Notwithstanding any other provisions of this Rule, the Exchange may, in its absolute and sole discretion, adjust trade prices or cancel any trade if it believes that allowing the trade(s) to stand as executed could have a material, adverse effect on the integrity of the market. All decisions of the Exchange shall be final. Subject to the limitations and conditions of this Section 3 of the Rules, and irrespective of the terms of any order entered into the Electronic Trading System, the Exchange shall not have any liability for losses resulting from price adjustments or trade cancellations by the Exchange under this Rule.

### 3.3.2. REVIEW OF TRADES

The Exchange or its designee may determine to review a trade based on its independent analysis of market activity or upon request for review by a user of the Electronic Trading System. A request for review must be made to the Exchange or its designee via telephone within eight minutes of the execution of the trade. Any other form of communication will not constitute a request for review as set forth in this Section 3.

The Exchange or its designee shall determine whether or not a trade will be subject to review. In the absence of a timely request for review, during volatile market conditions, upon the release of significant news, or in any other circumstance in which the Exchange

or its designee deems it to be appropriate, the Exchange or its designee may determine that a trade shall not be subject to review. Upon determining to review a trade, the Exchange or its designee will promptly issue an alert indicating that the trade is under review.

### **3.3.3. PRICE ADJUSTMENTS AND CANCELLATIONS**

Upon making a determination that a trade will be subject to review, the Exchange or its designee will first determine whether the trade price is within the Non-Reviewable Range for Futures or within the Bid/Ask Reasonability Range for Options, both of which are provided on [www.mgex.com](http://www.mgex.com). The Bid/Ask Reasonability Range for an Option is the maximum width of the bid/ask range which will be considered reasonable for use in applying the parameters necessary to establish the Non-Reviewable Range for the option. In applying the Non-Reviewable Range, the Exchange or its designee shall determine the fair value market price for that contract at the time the trade under review occurred. The Exchange or its designee may consider any relevant information, including, but not limited to, the last trade price in the contract or a better bid or offer price on the Electronic Trading System, a more recent price in a different contract month, the price of the same or related contract established in another venue or another market, the market conditions at the time of the trade, the theoretical value of an option based on the most recent implied volatility and responses to a Request for Quote.

#### 1. Trade Price Inside the Non-Reviewable Range

If the Exchange or its designee determines that the price of the trade is inside the Non-Reviewable Range, the Exchange or its designee will issue an alert indicating that the trade shall stand.

#### 2. Trade Price Outside the Non-Reviewable Range

##### a. Futures Contracts

If the Exchange or its designee determines that a trade price is outside the Non-Reviewable Range for a Futures Contract, the trade price shall be adjusted to a price that equals the fair value market price for that contract at the time the trade under review occurred, plus or minus the Non-Reviewable Range. In the event there are multiple parties, prices and/or contracts involved in the transactions at issue, the transactions may be canceled rather than make price adjustments. The Exchange or its designee will issue an alert regarding the decision.

##### b. Option Contracts

If the Exchange or its designee determines that a trade price is outside the applicable Non-Reviewable Range for an Option Contract, the trade price shall be adjusted. In the case of a buy (sell) error, the price will be adjusted to the determined ask (bid) price set forth in the Bid/Ask Reasonability Range plus (minus) the Non-Reviewable Range. In the event there are multiple parties, prices and/or contracts involved in the transactions at issue, the transactions may be canceled rather than

have price adjustments made. The Exchange or its designee will issue an alert regarding the decision.

Canceled trade prices and any prices that have been adjusted shall be canceled in the official record of time and sales. Trades that are price-adjusted shall be inserted in the time and sales record at the adjusted trade price.

#### **3.3.4. ALTERNATIVE RESOLUTION BY AGREEMENT OF PARTIES**

With the approval of the Exchange, parties to a trade that is price-adjusted may instead mutually agree to cancel the trade. With the approval of the Exchange, parties to a trade that is canceled may instead mutually agree to price-adjust the trade to a price consistent with the adjustment provisions of Rule 3.3.3.

Parties to a trade that is canceled or price-adjusted may mutually agree to a cash adjustment provided that such adjustments are reported to the Exchange or its designee and the parties maintain a record of the adjustment.

An executed trade may not be reversed via transfer except where such trade is determined by the Exchange or its designee to be outside of the Non-Reviewable Range but not reported timely, subject to agreement of the parties and approval of the Exchange. Any such transfer must occur at the original trade price and quantity; however, the parties may mutually agree to a cash adjustment.

A trade that is not canceled may not be reversed via a prearranged offsetting transaction unless such transactions are permitted and effected in accordance with Rule 730.01.

#### **3.3.5. LIABILITY FOR LOSSES RESULTING FROM PRICE ADJUSTMENTS OR CANCELLATIONS, AND PROHIBITION ON CLAIMS FOR LOSSES ARISING FROM ERROR TRADES EXECUTED WITHIN THE NON-REVIEWABLE RANGE**

A party entering an order that results in a price adjustment or trade cancellation shall be responsible for demonstrated claims of realized losses incurred by persons whose trade prices were adjusted or canceled provided, however, that a claimant shall not be entitled to compensation for losses incurred as a result of the claimant's failure to take reasonable actions to mitigate the loss.

A claim for a loss pursuant to this Section must be submitted to the Exchange, and if applicable, its designee, within five (5) business days of the event giving rise to the claim. A party seeking to file a claim shall submit an 'Error Trade Adjustment/Cancellation Claim Form' to the Exchange or its designee. The Exchange or its designee shall reject any claim that is not filed in a timely manner or is not permitted by this Section and such decisions shall be final. Eligible claims shall be forwarded by the Exchange or its designee to the party responsible for the order(s) that resulted in a trade cancellation or a price adjustment and to the Clearing Member through which the trade was placed. Such party, or the Clearing Member on behalf of the party, shall, within ten (10) business days of receipt of the claim, admit or deny responsibility in whole or in part. Failure to respond to the claim within ten (10) business days shall be considered a denial of liability.

To the extent that liability is admitted, payment shall be made within ten (10) business days. Unless otherwise agreed upon in writing by the parties, failure to make the payment within

ten (10) business days shall be considered a denial of liability for purposes of this Rule. A copy of any such written agreement must be provided to the Exchange or its designee.

To the extent that liability is denied, the party making the claim may submit the claim to arbitration in accordance with Chapter 4 of the MGEX Rules. Such claims must be submitted to the Exchange or its designee within ten (10) business days of the date the party was issued notification that liability was denied.

Claims for losses incurred as a result of trades executed in error at prices within the Non-Reviewable Range may not be submitted for arbitration pursuant to the provisions of Chapter 4 of the MGEX Rules.

### **3.3.6. SCHEDULE OF ADMINISTRATIVE FEES**

When the Exchange cancels or price-adjusts a trade, the party responsible for entering the order into the Electronic Trading System that gave rise to the trade cancellation or price adjustment shall pay a fee to the Exchange or, if applicable, its designee, in the amount of \$1,000.00 for each such occurrence. If the party is not a Member of the Exchange and fails to pay the fee, the Clearing Member through which the trade was placed shall be responsible for payment of the fee.

### **3.3.7. PERMISSIBLE RESPONSES TO PHANTOM ORDERS**

If the Exchange or its designee has reason to believe that phantom orders, as defined below, have been or are being entered into any system, service, or facility, the Exchange shall be empowered to take appropriate action to protect the integrity of the market, including, without limitation, suspending trading and/or cancelling unfilled orders. The Exchange shall also be empowered, in its sole discretion, to cancel transactions, or adjust the trade prices of transactions that were directly or indirectly caused by phantom orders, whether or not such transactions were executed at prices outside of the non-reviewable range specified in this Section.

If phantom orders directly cause transactions to be executed on any of the Exchange's or its designee's systems, services, or facilities, and such transactions are not canceled, the Exchange shall promptly direct the Clearing Member carrying positions resulting from such transactions to liquidate the positions in a commercially reasonable manner. Such positions shall be liquidated within 30 minutes of such notification or within 30 minutes of the time the Clearing Member knew or should have known that it had been assigned transactions resulting from phantom orders, whichever is sooner. The Exchange, in its sole discretion, may waive the 30 minute liquidation requirement if it determines that such requirement may have a material, adverse impact on the integrity of the market.

The Exchange or its designee shall provide notification to the marketplace regarding any action taken or to be taken with respect to the entry of phantom orders or execution of a transaction as a result of phantom orders, and, in the event transactions are not otherwise canceled or price adjusted by the Exchange, any actions required to be taken by Clearing Members. Such notification(s) shall be made as soon as practicable, but in no event more than 30 minutes after the time that the Exchange or its designee has accurate information regarding the phantom orders that is sufficient to support the necessary notification(s).

For the purpose of this Rule, a phantom order is an order: (1) that was not authorized by a person but was caused by a failure, malfunction, or negligent operation of the Electronic Trading System or any Exchange or designee systems, service, or facility, or (2) whose terms (e.g. contract, contract month, quantity, price, or direction) were changed without authorization of the person placing the order solely as a result of a failure, malfunction, or negligent operation of the Electronic Trading System or any other Exchange or designee system, service, or facility.

Any Exchange liability for losses resulting from phantom orders shall be subject to the limitations of Rule 1816.00.

### **3.3.8. SCHEDULE OF NON-REVIEWABLE RANGES**

Please access Non-Reviewable Ranges on the MGEX website:

MGEX Non-Reviewable Ranges - <http://www.mgex.com/nrr.html>